

BILL # HCR 2034

TITLE: repeal business personal property tax

SPONSOR: Gowan

STATUS: As Introduced

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FISCAL ANALYSIS

Description

Under current law, personal property that is used for agricultural purposes or in a trade or business is exempt from taxation up to a maximum amount of \$50,000 in full cash value per taxpayer. This amount is automatically adjusted for inflation each year and is currently \$65,013. If approved by voters in the next general election, this bill would repeal the business personal property tax.

Estimated Impact

Based on the total statewide reduction in property valuation, as estimated by the Department of Revenue (DOR), it is estimated that HCR 2034 would have a General Fund cost of \$204.6 million beginning in FY 2012. The reduction in net assessed valuation (NAV) under the resolution would have a direct impact on the General Fund by increasing the cost for K-12 funding under the Basic State Aid formula. However, depending on the decision of the Legislature, this cost increase could be mitigated as a result of the automatic tax rate adjustments allowed under the state's truth-in-taxation (TNT) provisions for equalization assistance to schools. If the Legislature decides to allow the TNT adjustment to automatically take effect, the net General Fund cost would be reduced to an estimated \$43.9 million beginning in FY 2012.

Analysis

DOR estimates that the repeal of the business personal property tax under HCR 2034 will result in a \$(35.4) billion reduction in taxable full cash value. This amount translates into a NAV reduction of \$(7.1) billion.

Under the Basic State Aid formula, the state pays for the cost of K-12 education not generated through local property taxes. The state also pays a percentage (40% in FY 2012) of residential property taxes through the Department of Education's Homeowner's Rebate program. By reducing NAV by \$(7.1) billion in tax year 2011, the bill will result in a direct increase of the state share of K-12 funding by \$204.6 million in FY 2012. This estimate includes the net impact of both Basic State Aid and the Homeowner's Rebate.

The NAV reductions under HCR 2034 will also have an impact on the state's Truth in Taxation (TNT) program. Under TNT, the Qualifying Tax Rate (QTR) is adjusted each year to offset the statewide annual valuation change of existing property. This rate change occurs automatically unless the Legislature decides to forego the TNT adjustment. Depending on the direction of the rate change, the TNT program can either produce a savings or a cost to the state General Fund. Since existing property values are expected to decline from this bill in FY 2012, TNT would result in a QTR increase to offset the property valuation loss. If the Legislature allows the TNT adjustment to take effect in FY 2012 (in the form of a higher rate), it is estimated that the net cost of the bill would be reduced from \$204.6 million to \$43.9 million in FY 2012. The higher cost due to the NAV loss will not be fully offset by the higher tax rates under TNT since those rate increases will also raise the cost of the Homeowner's Rebate program.

Note that the analysis above does not reflect the behavioral responses of individuals and businesses to a reduction in property taxes. Generally, reduced taxes can serve as an incentive for individuals to work and save more and for businesses to employ more capital and labor than they otherwise would. These "dynamic" effects may result in an increase in economic output, which in turn may generate more tax revenue dollars for the state General Fund than what a "static" analysis assumes.

(Continued)

Local Government Impact

This bill would shift the tax burden to property owners not affected by this legislation and/or result in property tax losses for local governments.

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